



October 10, 2011

Dow: 11,373

STEVEN JOBS – RIP

Isn't it ironic that his last name is Jobs? He created hundreds of thousands of jobs over the years for his company, Apple. He was also responsible for numerous other jobs created in businesses that sold or used his innovations. It's amazing that one man can be responsible for the creation of so many jobs and all the politicians in Washington DC can't create but a handful of private sector jobs. Steven Jobs had a vision, he had passion and he had energy. That's what entrepreneurship is all about. Capitalism flourishes in a garage or a basement somewhere, not in the halls of Congress. There have been many others like Steve Jobs in the past and there will be more in the future. America was built on the backs of these people. Not only were jobs created, but the standard of living has increased around the globe due to their innovations. These entrepreneurs did this with their own money or help from private investors. No taxpayer dollars were at risk. Those who are currently protesting on Wall Street and other places in America should take a break from their iPods and iPads and reflect on how these conveniences came about. Wall Street and banks are an easy target when things go wrong in the economy and Congress is going for the jugular to get reelected next year. It's unfortunate because politics divides people just when we should all be pulling together. John Kennedy's inaugural address comes to mind when he said, "Ask not what your country can do for you, ask what you can do for your country." Well, Steve Jobs did plenty for his country. He shall be missed.

Private sector jobs increased by 100,000 in September, which was more than expected but not near enough to indicate that the economy is ready to soar ahead. We need at least 250,000 new private sector jobs created each month just to absorb new entrants into the job market. The unemployment number stayed at 9.1%. If you add into the number those unemployed who have stopped looking for a job, the unemployment number jumps to 16%. The administration's new jobs proposal is unlikely to pass the Senate let alone the House. Most economists agree that it would have little impact on the job market or the economy. The Fed is warning that the economy is close to falling into a recession and is hinting at stimulus QE3 if "operation twist" doesn't work. We cannot see how either action could help the economy. First, we do not need to print more money to stimulate the economy. There is plenty of money available. Secondly, the only people helped by lower mortgage rates are those that have a job and a good credit rating. Those looking to buy a house for the first time either have no job or lack an adequate down payment. It will take some time to work off the oversupply of houses and no amount of stimulus will help. Congress and the Fed should be focused on creating a more favorable environment for those that can create jobs. We again say this can be done by focusing on lowering corporate taxes to make us competitive with the rest of the

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world and stop with the regulations. Bernie Marcus, who started Home Depot in 1978, says his chain of stores would never have succeeded if launched today due to onerous regulations and high taxes. When Calvin Coolidge was President he said, "The business of America is business." It is not the business of the federal government to make "bets" on favored industries with taxpayer money. So once again, Washington, we implore you to get out of the way and let entrepreneurs do their thing.

Irony of ironies. Just when it appears the free trade bills with South Korea, Columbia and Panama are about to be passed, South Koreans are protesting in the street to stop it. Before the worldwide economic crisis they were all for it. Now they feel their economy (exports) will be hurt by it. In this economic crisis it is every country for themselves. There is legislation currently in Congress to impose a tariff on Chinese imports mainly because they will not allow their currency to float to levels that would be fairer to their trading partners - mainly us. Bad idea. The Smoot-Hawley Tariff Act of 1930 did not cause the Depression but certainly contributed to its extension. China would just reciprocate as would other countries and that could further slow the economic recovery.

China's economy is definitely slowing, and they are experiencing rising inflation. However, we do not know the extent of either of these problems as China is not a pure democracy and the state controls information. Inflation in China will be felt here in terms of higher prices on imported goods. In turn, slower consumer spending in the US will slow their economy. China's economic stimulus programs in recent years have resulted in sharp increases in food prices. The government has tried slowing the economy to dampen this increase, but food prices apparently rose more than 13% in August, and pork, China's favorite meat, rose more than 50%. This hurts American companies such as McDonalds and Yum Brands (KFC, Pizza Hut) and will soon impact other American non-food companies. When the dust settles, the US may look more attractive for expansion. China is also starting to feel the impact of wage inflation. The playing field is leveling.

One final note - the month of October has historically been a time when bear markets hibernate. So don't let ghosts, goblins, or a Greek default scare you. We are still the strongest country on earth and the safest place to invest.

Random Thought for October 2011: "Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse pulling a sturdy wagon."

Winston Churchill

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